A Year in Review for Bank of Montreal

Description

It has been a pivotal year for **Bank of Montreal** (TSX:BMO)(NYSE:BMO). While it was certainly shaky from an earnings perspective and because of the return on investment for investors, the bank made smart moves that will help it grow going into 2016.

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Shares and dividends

The reality for BMO is that it had a decent earnings year despite the fact that many investors were concerned that depressed oil prices would beat the company down. The share price started the year out high, reaching $82.91 per share before dropping considerably over nine months down to $64.01. Since September, it has been rising again, but if you had bought in January, you'd currently be in the negative strictly because of the share price.

On the other hand, Bank of Montreal was able to continue to grow its already strong dividend. In 2014 it paid $3.04 per year, whereas in 2015 it paid $3.20. While it is only a 5% increase, the bank saw fit to increase the dividend twice this year. On February 24, it issued an $0.80/share dividend. On May 27 and August 25, it issued an $0.82/share dividend. Finally, on December 1, it issued an $0.84/share dividend.

Earnings growth

According to the company, its medium-term financial objective is to have average earnings-per-share growth of anywhere from 7% to 10%. It didn't quite hit that from the previous year, but it was pretty close. According to results, its adjusted EPS was $7.00, up $0.41 from $6.59 in the previous year. This was a 6% increase, which was below the five-year average of 7.9%. Adjusted net income was up 5% to $4.68 billion.

Broken out, its four operating groups split on growth and loss.

Its personal and commercial bank unit saw adjusted net income of $2.99 billion, which was a 10% increase. This includes both the Canadian personal and commercial banking and the U.S. personaland commercial bank.

Its wealth management group saw a 13% increase in adjusted net income to $955 million. On the other hand, BMO Capital Markets saw a 4% drop in adjusted net income to $1 billion. And its corporate services group had an adjusted net loss of $296 million, which was $102 million more than in 2014.

The reality is that growth in Canada slowed in the first half of the year, and this had a negative impact on the bank. With oil-producing regions and commodities continuing to experience weakness, a year that is slightly below average is to be expected. That being said, it wasn’t all bad for the bank.

Acquired credit assets

The big news of the year was its acquisition of the Transportation Finance division at **General Electric**. Due to regulatory headaches, GE has been selling off many of its financial assets to focus more on being an industrial company again. That is good news for banks such as Bank of Montreal because it can get high-quality assets that might not have otherwise been made available.

This move was smart for Bank of Montreal for a few reasons. The first has to do with the fact that it acquired net earning assets of $11.5 billion. But what matters more is that this division accounted for 20% of all lending done in the trucking business in the United States. That means that if the U.S. economy continues to remain strong and if trucking gets stronger, this could be a growth opportunity for Bank of Montreal.

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The reality is simple … Bank of Montreal did not have the best year from a straight earnings-growth perspective, but even during a slowing economic time in Canada, it was able to grow earnings, increase its dividend, and make a smart acquisition that will reward investors.

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Date
2025/08/23
Date Created
2015/12/21
Author
jaycodon

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